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# **The Government and the Railways**

ADDRESS BY

HON. JAMES M. COX

At the Annual Dinner of the  
Railway Business Association

December 11, 1913

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# Government and the Railways

AN ADDRESS BY

HON. JAMES M. COX

Governor of Ohio

Delivered at the Fifth Annual Dinner of the Railway Business Association, the national association of manufacturers of railway materials, equipment and supplies, at the Waldorf-Astoria Hotel, New York, December 11, 1913

Business and government are beginning to understand each other better—a development in attitude born of expediency on the one hand, and an awakened consciousness of responsibility on the other. Business in its present form is a distinct social evolution, based on the elements of human dependence. In fact, it not only antedates organized society, but was the one thing most conducive to the association of man without which he would still be encased in the shell of primitive darkness.

As government sprung logically from the social organization, then a very simple analysis establishes the important part that the mere exchange of products and utilities has played in the whole scheme of things. This very obvious co-relation makes it difficult to account for the prejudice which government so long held for business. And yet we must not delude ourselves into the thought that the human element was lacking in this arrangement. The tendency of government is but the impulse of humanity. Laws are but the reflex of a con-

trolling public desire—the act of government being as closely joined to the social organization as the movement of the arms to the mind which directs them.

So that we are brought confessedly to the proposition that the mass has been drawn into agreed opposition to the class. There is a high average of fairness in public opinion, the admission of which brings the thought that unfair advantages have obtained somewhere. As our government is designed to maintain the largest measure of equality and opportunity possible, then it must adjust itself to the useful function of correction.

## PARENT GUILTY TOO

So-called big business was chartered by government, and if the child has been guilty of abuses, the parent is not blameless for permitting them to go on until they assume the form of a distinct menace to the industrial life of the nation. (Applause.) Everyone but the cynic grows into an acceptance of the philosophy that



things balance up pretty evenly in the game of life, and it would seem that the agencies which by one form or another postponed the day of governmental regulation find the consequences falling upon them with some severity. (Applause.) On the other hand, the nation, now aroused from the lethargic spirit of letting well enough alone, finds the results of its long neglect spread into every community.

### **A NATIONAL RESPONSIBILITY**

The country is now facing a responsibility which must be met with candor and courage. Something must be done with the railroad question. Let us discuss it frankly in its important phases.

First—The part which transportation plays in our affairs, and in the development of the country.

Second—The real condition of the railroads, physical and financial.

Third—The cause of the present confusion.

Fourth—The remedy.

### **IMPORTANCE OF TRANSPORTATION**

It is surprising upon analysis of industrial activities to find the potential part that the railroads play. Ours is a great country of vast domain. Our lands possess the diversified fertility which yields the extremes of corn and cotton. Our mines give up the richest treasures in all the world. The genius of man lays hand on the waterpower of our rivers. We enjoy the varying climates common to every region from St. Petersburg on the north to Palestine on the south. We attract the strong, red blooded people of all nations, and as they pass through the melting pot of the American institutions, there comes from it that wonderful composite figure, the American citizen. (Great applause.) And yet, with all these God-given

advantages, what would it avail the great Northwest to grow bread for millions if its products could not be transported all over the world, producing in steady flow the yellow stream of gold? The south, facing the future with every promise of restored commercial strength, would fall into stagnation if the means were not provided to convey cotton from the plantation to the spindles and looms of the globe. (Applause.)

The great middle west, a giant in the part it plays in the affairs of man, would lapse into decline if transportation lines did not tap the fields of this vast universe. We are a great people because we produce practically everything necessary to civilization. We are essentially a nation of traders because the north, south, east and west must sell to and buy from each other.

We are a concrete mass in commerce because the genius of man has solved the problem of distance and isolation. Lay down the map of the republic and trace the network of railroad lines. In combined miles they span the distance from the earth to the moon. They pierce every state. In 1912 they transported 1,019,658,605 passengers. Over every mile of track were carried more than a million tons of freight and 138,100 passengers.

### **SPIRIT OF RAILWAY ORGANIZATIONS**

The vast organizations are held together by a spirit as impressive as that dominating an army. No one of loyalty exceeds that of the vast majority of officers, while the private unflinchingly face dangers every one that would try the metal of the seasoned soldier. (Applause.)

The great trunk lines and feeders resemble the circulation system of the human body.



And if you lay your finger on the pulse of the railroad organism you have certain and unmistakable symptoms of the country's prosperity or adversity. (Applause.) One out of every twelve male adults in this country is employed by the railroads. Their contribution to labor and manufacturing makes up one-twelfth of the commerce of the land. No city of any size has grown without a railroad.

### OHIO'S GREAT FLOODS

When the great commonwealth of Ohio was stricken last spring with the great flood catastrophe we lay stunned and helpless until railroad communication was established. As soon as the severed cords were put together the whole aspect changed. Communications were fed and the vital life of the state restored.

Certainly none will deny how important the railroads are and how essential it is to conserve this utility, and by this is meant, protection from wise operation, and a guarantee of insurable safety to the individual and institutions that have hazarded their capital. The health of the railroads is very far reaching, when we consider that aside from the ordinary investor, life insurance companies, depending in their hands the hopes and expectations of almost thirty million policyholders, have invested one and a quarter billion dollars in railroad securities.

### CONDITION OF THE RAILWAYS

Now, what is the condition of the roads? We have enjoyed unprecedented prosperity. Commerce has ups and downs but the tonnage of the railroads continues stupendous. Terminals in every city are insufficient. There is congestion at these points which interferes with the normal flow of travel. Service is beginning to show the lack of old time regularity. Pulling stock is inadequate in some

respects. The development of the country makes a call on the railroads for extensions and equipment, which finds an enforced feeble response. They could advantageously to the public use hundreds of millions of dollars right now. (Applause.)

Three years ago James J. Hill, with a vision that was almost prophetic, stated that the railroads should for five years expend a billion dollars annually for construction, if they were to handle the business of the country efficiently. (Applause.) He predicted congested terminals, and vastly inadequate facilities, and events show the wisdom of his observation.

### RAILWAY CREDIT IMPAIRED

With the public and the railroads in agreement on the proposition that the march of progress has passed the transportation business, the fact remains, that the railroads cannot borrow the money to provide for the situation. Short time notes have been given to meet current and emergency expenses, and if the banks of the country were to demand payment we would be in the throes of a well organized panic. Investors have been driven to other fields, notwithstanding no business is based on a more stable utility than that of the railroads. The amount of securities listed on the New York Stock Exchange by steam railroads in 1912 was the smallest in ten years.

### RAILWAY REGULATION

While there can be no difference in opinion with reference to the utility of the railroads, their present physical and financial condition, and the necessity of their conservation, there may be a vast divergence in views with reference to what has brought about the present situation and the correct remedies which must come from both the common sense and fairness of the American people. Where symptoms



are so well marked it seems to me that the diagnosis ought to be measurably easy. You hear in many quarters the statement that adverse legislation and the policy of regulation by the government—state and federal—are the largest contributing factors. I do not subscribe to this view. In fact, sane regulation will become the ultimate salvation of the business. (Applause.)

### **REGULATION NOT SOON ENOUGH**

One cannot resist the thought, when he surveys the abuses of overcapitalization, financial adventure and personal exploitation, that the mistake in regulation has been that it didn't come soon enough. Prior to regulation by government 20% of the railroads of the country were in the hands of receivers. This was the situation in 1894. It cannot but be regarded as significant that the New York Central, Baltimore and Ohio and Pennsylvania Railroads, with a combined capital stock of \$934,000,000, have issued since 1900, during the period of increased regulation, stock to the amount of \$548,000,000, upon which they realized more than \$600,000,000 in cash, the securities having sold at a handsome premium.

### **COWARDICE AND CORRUPTION**

No one will contend that the laws in some of the states have not been unduly burdensome. The truth is that in the political affairs of a nation the two harmful elements are cowardice and corruption, and as debasing as corrupt influences have been, the ultimate harm from cowardice in public station has been infinitely greater. (Great applause.) Personal political expediency is too apt to rise transcendent to the public welfare. There has been a regrettable absence of that order of courage to withstand some legislation born of prejudice against the railroads, and I believe you gentle-

men will agree that this prejudice developed in considerable degree because of the unwise and, in some instances, reprehensible administrative policies of some companies.

### **NEW MORAL STANDARDS**

No one will seek to condone the practice of milking railroads in order that the executive officers and directors might be illegally and immorally given vast fortunes through the artful and insidious method of contracting with themselves for construction work. (Applause.) No man in conscience will avow the propriety of a wildcat policy in the issuance of securities. No community in America will produce the man who will attempt to justify the practices which have shaken the confidence of the conservative thought of New England. These abuses of power, like every other disaster, in social or economic life, have their compensations. There is always a hidden blessing which plays its part in working out an ultimate evolution along the lines of morality and sound business policy. There is no saying more truthful than that the hazard always makes the man; and it is fortunate that over the wreckage of these misguided projects there come men with a vision, a humanity and a courage which give hope to this whole country, which cannot but look upon the situation with grave concern. (Applause.)

### **ABOLITION OF REBATES**

The method of regulation by government which prevents preferential rates and rebates is not only helpful to the railroads themselves, but it is a dignified participation of government. These quasi-public corporations spring into life by the consent of society through the agencies of government. That is the first and essential element of vitality to the project; and the institution responsible for the birth of the



corporation not only has a constitutional right to retain a reserve power of control, but the moral obligation to do so is just as binding. (Applause.) The misconduct of the child is a reproach upon the parent if he has been remiss in his duty. It is unfortunate that the railroads in their failure to recognize the ultimate advantage from regulation, drifted for a time into a nation-wide policy of resistance, and this resulted in some instances in a too large corporate participation in politics.

### **RESTORE THE PATIENT FIRST**

Now, what is the remedy? First of all, we might just as well recognize at the outset that a puritanical severity with stockholders who honestly acquired their securities is not going to do any good. The thing to do is to restore the patient and then prescribe and enforce a diet and behavior which will prevent recurrent illness. The man who stands for progressiveness in government bases his plea upon the theory that all things are changing; that man and his activities must fall into inevitable subjection to the laws of evolution; and we remind the ultra-conservative that things not only change in business, in professions, in the sciences, in all the agencies of life itself, but that each age brings its changes in accepted fundamentals of justice.

### **NEW ETHICAL YARD STICK**

Our fathers subscribed to many things in full conscience that are shocking to present day ideals. My reference is obviously to the offense for witchcraft, imprisonment for debt, and the property qualification in suffrage. We must therefore be consistent and recognize this as fundamental just—that the transgression of yesterday cannot and must not be measured with the ethical yardstick of today. (Applause.) It is more creditable, I feel sure, to adhere to

this doctrine than to frame a policy of confiscating the holdings of present owners who are in no way to blame for the abuse of those who sold them.

### **NEW ENGLAND SITUATION**

Some may contend that the government is not the guardian of the people in their traffic regulations, one with the other, but that does not reach the question of the government's neglect for years in permitting its corporate creature to run amuck. (Applause.) We have in illustration of this thought, the developments of today in the affairs of the New Haven road. (Applause.) The whole country stands appalled. A great property builded on the resource, thrift and pioneer morals of New England, has been drained of its very blood and bone, through methods that inspired the divine command "Thou shalt not steal." (Applause.) Of the 22,000 stockholders, half are women, many are estates and trustees, a circumstance which speaks the confidence of those now dead. What excuse has government to offer those, who lived secure in the thought that it protected the defenceless? What word have the States, responsible for this outrage, to utter in explanation? It would have been impossible of accomplishment in any progressive State. I feel sure the federal government in its present hands will not remain dumb to the constitutional command of absolute control over interstate commerce. (Applause.)

### **SOCIETY MUST PAY**

As the responsibility was divided in the first instance, there should now be common acquiescence, as between the government and the railroads, in the suggestion to seal the past and proceed in making of a better order of things on an entirely new base.

If we concede that the agencies of transportation must be healthy in



order that the country can grow and develop, then, regulation must proceed on the theory that what society imposes on the railroads, society itself must pay for. (Applause.) If increased taxes, larger compensation for labor, the application of safety devices, the maintenance of expensive schedules and other things, are insisted upon by society, through government, then the railroads, like any other institution, must be given the right and the facility to distribute the burden. The business man meets the increased cost of his products by adding to his selling price. Augmented costs, due to short crops, or other unseemly circumstances, fall generally upon consumption. If the industry involved were to bear it alone and government prevented the distribution of added expenses, there would be but one result—disaster. So that if we expect the railroads to draw from their earnings to meet the changed and developing conditions of the day, they must receive the same consideration shown to other business enterprises, or the result with them will be the same—disaster. (Applause.)

You cannot buy land for terminals; lay tracks of steel to accommodate the growing traffic of the nation; build spurs to mines, cities or agricultural centers, without an increased cost in investment. You can't sell the securities unless the public is assured of a return on the outlay.

### **TO STRENGTHEN INVESTORS' CONFIDENCE**

Every phase of the fiscal situation with the railroads suggests that something be done to establish in the mind of the investing public some fixed idea, not only of the inherent value of the railroads, but a national policy, securely supported by an intelligent public opinion, must be framed for the conservation of the transportation utilities, and you cannot conserve the business without conserving the confi-

dence of the country. Railroad men everywhere admit that a new day in the affairs of this industry has arrived, and that the old order of things is displaced, first by the impossibility of extensive exploit and adventure, and, second, by a new moral code which seems to be finding adoption everywhere. The policy of dealing above board with the government, public and shipper, will become the real asset of the railroads. The government is the best agency to give dignified and effective exploitation of that plan. If a railroad corporation desires to work out a project of extension or improvement, and votes a perfectly honest issue of securities, with every intent to disburse them in good faith, the very essence of the whole transaction inspires confidence which will be widespread if some agency without the railroad organization certifies the legitimacy of the enterprise.

I introduce, therefore, entirely regardless of the objections that have been raised to the plan, the suggestion that ultimate relief will never come until the Interstate Commerce Commission passes upon the issuance of securities. Now, let us analyze this proposal.

### **FEDERAL SUPERVISION**

Suppose the Pennsylvania Railroad Company desired to issue \$50,000,000 in bonds—and I cannot mention the Pennsylvania Railway Company without making this observation, that out in our country we believe that its honor has never been stained—(great applause)—and it prepares to issue these securities. It goes to Washington, and submits in detail and specification absolutely everything connected with the project. The Government makes its investigation, finds it to be a legitimate enterprise, and it says so. It certifies the integrity and the legitimacy of that project. You then divide your securities into smaller denominations. Confidence has been



procured by the Government participation, and if you give the people the opportunity to buy the securities, in ten years' time the railroads will be owned by the people and you will have public ownership instead of government ownership. (Great applause.)

### STATE RIGHTS OBJECTION

I am mindful of the recommendations made by the commission appointed to investigate this plan. It proceeds from the premise of state rights. Every fair-minded student of this great subject concedes that when the states manifest no disposition to act in concert with reference to a subject, nation-wide in its consequences, for the simple reason that the federal unit of government can reach the responsibility with more efficiency and directness than the states, the general welfare of the people must be considered before the ethical rights of the states. Let me give you this illustration:

The Pennsylvania Railroad Company operates largely in the states of New York, Pennsylvania, Ohio, Indiana and Illinois. I think only two of these states have laws which compel governmental supervision over the issuance of securities. The company submits its project to Ohio, which has such a law, and yet, this procedure by one or two states does not give the slightest aid to the investor because the local authority is concerned only about the improvement within the State. Ohio counties used to value utilities for taxation; but it became perfectly apparent that they must surrender the task to the State in order that the valuation could be made on the corporate unit or that part of it local to the commonwealth. The results have been so satisfactory that no one would think of restoring the old order of things.

### MUST HAVE LIVING RATES

As already indicated, I hold no brief for the railroads, but I recognize that government, from the standpoint of morals and expediency, must permit them to have living rates. The survey should be an exhaustive one; and if it develops that while the gross receipts have increased, the net receipts are considerably diminished by the liberal policy of society, then relief ought to be granted, whether it be 1%, 5% or 10% that is needed. (Applause.)

There is nothing more harmful than the tendency to hold to a fetich. There is no more offensive species of standpatism than to impose a rate one year and continue it without term.

The future may develop the necessity of scaling rates downward. The inventive genius of man may contribute the means to vast economies in operation. When that comes the public should be given a reasonable rate, based on the cost of the service—the reasonableness of the rate is the issue now, and always will be. The railroads are entitled to it, and so is the shipper.

Recognizing, as we do, that there is some prejudice against the railroads and that an increase in rate, even though suggested by every consideration of fairness, might be unpopular, our great government has no higher function than rising to the dignity of a courageous recognition of rights, whether they be individual or corporate.

### RATES ARE LOW

Statistics would seem to show that while the government receives two cents for carrying a letter from one to a thousand miles—a very unscientific rating, by the way—the railroads transport a ton of freight three miles for the price of a postage stamp. This might be an odious comparison, and



yet, it reduces the whole situation to a problem so simple that we can better understand it.

The question of rates is an involved one. There are so many things to consider that one develops a sympathetic attitude for the Interstate Commerce Commission. There can, of course, be nothing but a uniform rate, and yet it has its elements of unfairness. Let us analyze this:

Between Chicago and St. Paul there are six different competitive railroads, and their capitalization per mile is as follows:

	Per mile
Chicago, Burlington and Quincy .....	\$36,338
Minneapolis, St. Paul and Sault Ste. Marie.....	36,362
Chicago & Northwestern.....	43,900
Illinois Central—Minneapolis & St. Louis.....	58,000
Chicago, Milwaukee & St. Paul	58,342
Chicago Great Western.....	74,983

### BONUSES WERE NECESSARY

The first thought might be that the vast difference is due to varying policies of finance, and construction. The question of integrity may be raised, and yet on analysis explanation may be found in considerable part in the matter of terminal values, a difference in rolling stock and roadbed—the physical characteristics of the routes might add to the cost in one instance and reduce it in another. Some of the roads may have been built when the future of railroads was uncertain, and bonuses were necessary to the completion of the enterprise. We must recognize that few projects in the formative period of any industry were ever launched without common stock being given with the subscription of bonds or preferred stock. The man who took a long chance is entitled to a reward beyond his six per cent. return. (Applause.)

### EARLY OBSTACLES

Let us not forget the difficulties railroads encountered and overcame. In our own good State, with a citizenship that has always been progressive the early Legislature was asked to prevent the construction of steam railroads on the ground that the trains would frighten the stock in the fields until it would not take on fat. It was urged that transportation by wagon would be impossible with trains running through the lands because the oxen and horses would be frightened to the point of frenzy by the whistling of the engines. (Laughter.)

Then, as a compromise, it was proposed to allow the roads to be built and operated, provided the trains would stop within half a mile of the wagon road and someone would go ahead to notify the people along the road that the train was approaching. Nor was this during the dark ages. It was within the memory of the oldest inhabitants of the State. (Laughter.)

The first newspaper published in Ohio was established a little over a hundred years ago, and known as the Western Star. It is still operating under that name, although the western stars have moved three thousand miles further west. In an issue of the paper there was printed an argument against railroad construction in Ohio upon purely economic grounds. It was shown that one train would displace fifty horses—that it would draw as much freight as twenty-five teams. And the writer sought to show that the displacement of many horses would tend to lower the price of grain—that the raising of grain would be unprofitable because there would be no horses to eat it.

But every reform that has been worked out, every invention that has been launched, has had to meet the economic opposition. Christianity itself was opposed upon purely economic grounds in the beginning. C



of the philosophers of Rome congratulated Nero upon his attempt to stamp out Christianity on the ground that there were so many people embracing the new teaching that it was affecting the market for fodder used to fatten cattle for heathen sacrifice. (Laughter.)

In 1818 the school board of Lancaster Township passed a resolution refusing to allow the use of the school house for a debate upon the subject of railroads and telegraphs. The resolution stated that such propositions as railroads and telegraphs were marks of infidelity and held that had the Lord intended men to talk through the air or ride at the rate of fifteen miles an hour it would have been foretold in the Scripture, and that a careful search of the Scripture failed to reveal any such prophecy. (Laughter.)

### CAPITALIZATION

Attention is drawn to the vast excess of capitalization of foreign railroads per mile as compared to American lines, and the difference is impressive, as shown by the following exhibit:

Capitalization per mile of line:	
United States .....	\$ 62,657
Germany .....	113,855
France .....	144,683
United Kingdom .....	275,156
England and Wales.....	328,415

Two factors must be considered in this. When steam as a motive power made railroads possible, European cities were developed in size and realty values, and terminals were expensive, while in this country the railroads and cities grew together. Furthermore, the American roads were given vast subsidies in lands and rights of way—

a considerable factor in their present wealth and resource which enabled many extensions and improvements to be made without the issuance of securities.

That the rates are lower in America than abroad is but another tribute to the genius of our people, and the admission is another puncture in the fallacious doctrine that we cannot produce most things in this country as cheaply as in Europe. (Laughter.)

### MATTER FOR PUBLIC OPINION

In closing, let us all dedicate ourselves to the solution of this great problem of transportation—recognizing that it concerns every community and every household. Let us be reminded that in the forum of public opinion every issue has been settled, and ultimately settled right in this our glorious country. If progress means anything, it is that prejudice cannot last, and that fair dealing will be endorsed.

It is no reflection on the stability of our race that we adjust ourselves in government and commerce, to the changing order of the day. It would be better never to have been lifted at all to the higher moral vision of advanced civilization if we are to retain the field glasses of yesterday. Upon every hill the Goddess of Progress has planted her trumpeteers, showing us the way to a greater national destiny, reminding us that life is but the march of generation, and we have our pilgrimage to cover. Let us do it with an open mindedness that enabled our fathers to burst the restraints of prejudice and tradition, and find fuller happiness, strength and Godliness, in the radiant influence of the new day. (Great and prolonged applause.)

